



Montana Department of
REVENUE

Compliance, Valuation & Resolution
Sam W. Mitchell Building

P. O. Box 5805
Helena, Montana 59604-5805

TO: Oil and Natural Gas Operators

FROM: Montana Department of Revenue

DATE: January 1, 2000

RE: Montana Oil/Gas Tax Filings - Responsibility of Operator
Effective for production occurring on or after January 1, 2000

What has changed?

The 1999 Legislature changed how oil and natural gas producers will pay taxes in Montana. Senate Bill 530 (permanent section effective 1-1-2000) consolidated tax rates, revised definition of qualifying production, shortened incentive periods for qualifying production, and replaced Pre-1985 and Post-1985 categories with Pre-1999 and Post-1999. The Pre-1999 classification includes all wells drilled before January 1, 1999. Post-1999 refers to wells drilled on or after January 1, 1999. The bill is located on the State of Montana website <http://www.state.mt.us> under 1999 Legislative Session. This memo describes the tax rates and tax forms that will be used for tax reporting beginning with the first quarter of 2000.

The amended oil and gas production tax is codified in Montana Code Annotated (MCA) Title 15, Chapter 36. If you have any questions, please contact our office at 406-444-6900.

GAS FORMS (effective 1-1-2000):

| | |
|--------------------|--|
| Form COG2: | Cover form for tax calculations |
| Form NG-PRE99: | Production from regular or stripper wells drilled before January 1, 1999 |
| Form NG-POST99: | Production from wells drilled on or after January 1, 1999, unless it qualifies for the NG-INCENTIVE |
| Form NG-INCENTIVE: | Production from new horizontal or vertical wells drilled on or after January 1, 1999 that are in an incentive period |
| Form STRCALC: | Calculation form for stripper qualification |
| Form COG-ROY: | Schedule of ownership interests (working interests and royalty) |

OIL FORMS (effective 1-1-2000):

| | |
|-------------------|--|
| Form COG2: | Cover form for tax calculations |
| Form O-REG: | Regular production wells. |
| Form OSTRIP: | Stripper production wells (producing an average of less than 15 bbls per day) |
| Form OSTR-X2: | Stripper exemption wells averaging production of 3 barrels or less per day |
| Form O-INCENTIVE: | Production from new horizontal or vertical wells drilled on or after January 1, 1999 that are in an incentive period |

Form ENH-INCR: Incremental production from enhanced recovery wells (includes recompleted horizontal for the first 18 months, secondary and tertiary production).

Form STRCALC: Calculation form for stripper qualification

Form COG-ROY: Schedule of ownership interests (working interests and royalty)

Please review them to determine your specific filing requirements. The actual forms and instructions will be provided by March 31, 2000. Disc filing will still be available.

Because we are implementing the use of scanning technology, you must use the forms and payment coupons that will be provided to you quarterly. Requests for additional forms and coupons for amended returns can be made by calling 406-444-6900.

Filing and payment

A production tax return and its accompanying payment is due 60 days after the end of each calendar quarter. All tax payments are to be made to the Montana Department of Revenue. The first filing under these new tax laws affects production occurring on or after January 1, 2000 and is due May 31, 2000.

TAX RATES AS OF 1-1-2000

| Type of Production | Working Interest | Nonworking Interest | Reporting Schedule |
|---|------------------|---------------------|--------------------|
| Natural Gas | | | |
| Primary recovery production | | | |
| First 12 months of production | 0.80% | 15.10% | NG-INCENTIVE |
| Pre-1999 wells after incentive period | 15.10% | 15.10% | NG-PRE99 |
| Post-1999 wells after incentive period | 9.30% | 15.10% | NG-POST99 |
| Stripper wells (averaging < 60 MCF/day) | | | |
| Pre-1999 wells | 11.30% | 15.10% | NG-PRE99 |
| Horizontally completed well production (drilled after 1-1-2000) | | | |
| First 18 months of qualifying production | 0.80% | 15.10% | NG-INCENTIVE |
| Oil | | | |
| Primary recovery production | | | |
| First 12 months of production | 0.80% | 15.10% | O-INCENTIVE |
| Pre-1999 wells after incentive period | 12.80% | 15.10% | O-REG |
| post-1999 wells after incentive period | 9.30% | 15.10% | O-REG |
| stripper (wells averaging < 15 bbls/day) | | | |
| pre-1999 & post-1999 first 1-10 bbls | 5.80% | 15.10% | O-STRIP |
| pre-1999 & post-1999 over 10 bbls | 9.30% | 15.10% | O-STRIP |
| pre-1999 & post-1999 stripper well exemption | 0.80% | 15.10% | OSTR-X2 |
| horizontally drilled | | | |
| pre-1999 & post-1999 wells first 18 months | 0.80% | 15.10% | O-INCENTIVE |
| incremental production | | | |
| new or expanded secondary recovery production | 8.80% | 15.10% | ENH-INCR |
| new or expanded tertiary production | 6.10% | 15.10% | ENH-INCR |
| horizontally recompleted well | | | |
| pre-1999 & post-1999 wells first 18 months | 5.80% | 15.10% | ENH-INCR |